MAY REVISION

PETE WILSON, GOVERNOR,
STATE OF CALIFORNIA

1998-99 GOVERNOR'S BUDGET

The May Revision to Governor Wilson's January Budget provides updated economic and revenue forecasts, as well as the latest caseload, enrollment, and population information for programs in the health and welfare, education, and public safety areas.

Key Features. The principal feature of the May Revision is Governor Wilson's proposal to reduce the state's vehicle license fee by 75 percent. Under the Governor's proposal, the fee will be reduced from two percent to one percent on January 1, 1999. The fee would then be reduced from 1 percent to ½ percent on January 1, 2002. To ensure that local governments continue to receive their same allocation as provided under current law, the May Revision proposes a continuous appropriation of General Fund revenue to offset the reduction in Vehicle License Fee revenue.

In addition, with state revenues forecast to be more than $4.2 billion higher than in the January Budget, the Governor proposes to make the following investments in key policy areas, which include:

- For K-12 schools, an additional $500 million in funding above the Proposition 98 guarantee, to be used to establish after-school programs in elementary through junior high schools, enhance teacher training and retention, expand remedial reading and math programs, and purchase instructional materials.

- Nearly $250 million in additional funds for the University of California and California State University, of which $170 million is targeted for needed investments in instructional technology and maintenance, library materials, and facility maintenance.

- $130 million to provide the state's share of acquiring the Headwaters Forest.

- $172 million to reimburse local governments for flood control subvention projects.

- An additional $100 million to capitalize the state Infrastructure Bank, designed to provide local governments with access to credit for investment in infrastructure projects that will retain and create jobs.

The May Revision reflects a balanced state budget, and provides a budget reserve of more than $1.6 billion for economic uncertainties.

What's Happened Since January

The following developments have occurred since the Governor's Budget was submitted to the Legislature in January, and are reflected in the May Revision. A more detailed discussion of these issues can be found later in this document.

In the Economy

California's economy is forecast to add more than 800,000 new jobs during 1998 and 1999, with personal income and job growth continuing to outpace U.S. levels. The negative effects of Asia's economic situation on the state are being offset to a large degree by strong export growth to Mexico and continued low interest rates.

In Revenues

General Fund revenues have been revised upward by more than $1.7 billion for 1997-98 and nearly $2.5 billion in 1998-99 for a total of more than $4.2 billion. The most important factor in the revised forecast is April's personal income tax receipts and ongoing strength in the stock market, which raised the personal income tax forecast by nearly $1.5 billion in 1997-98 and by more than $2.1 billion in 1998-99.

In Caseload Programs

Caseload estimates for the state's three principal entitlement programs—CalWORKs, Medi-Cal and SSI/SSP—have been revised downward for both the current and budget years. However, the SSI/SSP caseload shows a slight increase between the current and budget years.

Prisoner and ward population estimates for both the Department of Corrections and the Youth Authority are lower than the estimates projected in the Governor's Budget.

TAX RELIEF

VEHICLE LICENSE REDUCTION

The Governor proposes significant tax relief for California families and businesses by reducing vehicle license fees (VLF). Over a three-year period, vehicle license fees would be reduced by three-quarters, saving taxpayers $995 million in 1998-99, $2.04 billion in 1999-00 and $3.6 billion by 2002-03.

The VLF is an annual fee on registered vehicles which is assessed at two percent of the vehicle's market value, adjusted by a fixed depreciation schedule. Revenues from the VLF, over and above the costs of collection and refunds, are constitutionally defined local revenues and are apportioned according to statute. Under current law, approximately three-fourths of all VLF revenue is distributed to cities and counties for general purpose use and the remainder as allocated as a resource for State-Local Realignment programs. This proposal will not change these distribution formulas, but will reduce the VLF rate to one percent beginning January 1, 1999, and to ½ percent beginning January 1, 2002.

Since VLF is a primary source of revenue for local governments, the May Revision proposes continuous appropriation from the General Fund to the Motor Vehicle License Fee Account to replace the loss in revenues to local governments. As all of the local government revenue will be replaced, there will be no change in the current operation of State-Local Realignment or any changes to "base VLF," which allocates funding to cities and counties as general purpose revenue. Consequently, this proposal, in addition to providing replacement revenue which will change at the same rate as the VLF, enabling Realignment and "base VLF" programs to operate as they currently do, will not impact the ability of local governments to meet current debt obligations.

OTHER TAX RELIEF

The Governor also proposes the enactment of an income and franchise tax credit for 50 percent of the basis of new, used, or refurbished computer equipment and software donated to public or private K-12 schools in California. This is expected to result in revenue losses that would be minor in 1998-99, $6 million in 1999-2000, and $8 million in 2000-01.

In addition, the Administration is willing to consider additional tax relief measures to strengthen California's business environment.

THE ECONOMY

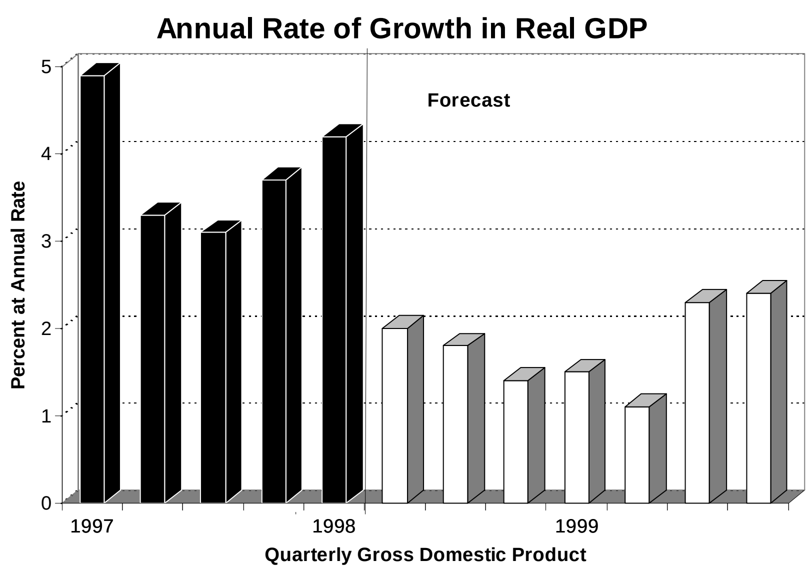
THE NATION

The U.S. economy continues to grow at a rapid pace, with low unemployment and declining inflation. For the sixth quarter in a row, inflation-adjusted (or "real") gross domestic product (GDP) growth in the first three months of 1998 registered better than a three-percent annual rate. Unemployment averaged a 24-year low of 4.6 percent of the labor force—a figure that is a full percentage point below the generally accepted estimate of the "full employment" or "non-inflationary" rate of unemployment.

Inflation continued to decline, with consumer prices advancing at a minuscule annual rate of 0.6 percent during the first three months of 1998, with the broader GDP price index up at a 0.9-percent pace. Even excluding the effects of falling energy and volatile food prices, the "core" consumer price index rose just 2.1 percent over the past year, the slowest pace since 1965.

However, recent economic developments may appear considerably better than they really are. The next year or so is likely to see a much slower pace of growth in the U.S. economy. The mildest winter in over a century of record-keeping in the Northeast and Midwest boosted a variety of first quarter household and business purchases. Construction normally scheduled for April or May got underway in January. Mild weather also affected inflation by helping to depress energy prices. About one-third of the first quarter's 4.2-percent real GDP growth can be attributed to the weather. To the extent that this activity occured earlier, there will be less economic activity in the second and third quarters of the year (See Figure ECON-1).

FIGURE ECON-1



THE ECONOMY

The effects of the Asian economic situation are just beginning to be felt in the U.S. In January and February, the trade deficit on goods and services was the largest in more than ten years. On merchandise (goods) alone, February's $17.1 billion gap was an all-time record for any single month. According to the U.S. Commerce Department's advance estimate of GDP, the gap between imports and exports widened by $41 billion in real terms during the first quarter—more than at any time in the last 52 years. While March figures are not yet available, reports from the nation's largest ports, Long Beach and Los Angeles, suggest a flood of imports from Asia, with ships returning to the Far East with little or no American-made cargo.

At the Port of Long Beach, for example, the volume of containerized shipping arriving from Asia during March shot up more than 55 percent from the year-earlier level, while the dollar value jumped 34 percent. The smaller increase in dollar terms reflects the impact of Asian currency devaluations on the value measured in the strong U.S. currency.

The financial situation in most of the developing Asian economies seems to have stabilized. A successful $4 billion South Korean bond issue in April was a strong vote of confidence in that country's financial recovery. However, despite these encouraging signs from the developing nations, Japan—by far Asia's largest economy and California's leading export market—has now joined the list of nations facing a full-fledged recession in 1998.

On balance, these developments point to a somewhat larger U.S. trade gap—which subtracts from economic growth—than was forecast in the Governor's Budget last January. The flood of imports is also adding to U.S. inventories. The need to pare these excess stocks will further slow domestic production in the second half of this year and in early 1999.

However, competition from Asia and other low-cost regions of the world is helping to keep domestic prices in check. Weakness in Asia and the generally sluggish tone of continental Europe's economies are also placing downward pressure on the cost of raw materials. Thus, despite low unemployment, U.S. inflation is likely to remain quite low for the next year or more.

Low inflation—currently less than 1 percent—a first-quarter moderation in employment cost increases, and the prospect of slower economic growth ahead seem to argue against a rise in interest rates this year. The strong dollar, concerns over the effects of higher rates on Asia's recovery, and the first U.S. budget surplus in 30 years should further tip the balance against an interest rate boost in 1998. Moreover, slower economic growth in 1999 could prompt a lowering of borrowing costs next year.

Compared to the January Budget:

- Real GDP growth of 2.9 percent this year is 0.2 percentage point higher than in January, reflecting stronger growth late last year and in 1998's first quarter. However, the Asia-related slowdown should be evident later this year and in 1999, when growth is forecast at 1.7 percent, 0.3 percentage point less than in January.

- Inflation is lower. This year's 1.8-percent rise in consumer prices is 0.6 percentage point less than forecast in January. Next year, consumer prices are expected to edge up 2.5 percent—0.8 percentage point less than in the Governor's Budget.

- Interest rates show little movement this year, and are forecast to decline in 1999. The January Budget had expected a slow rise in rates both this year and next.

More details of the 1998-99 U.S. forecast are shown in the accompanying Figure ECON-2.

FIGURE ECON-2

Selected U.S. Economic Indicators, 1997-99

	1997	1998	1999
Real GDP, (1992 dollar) (Percent change)	3.8	2.9	1.7
Personal consumption expenditures	3.3	4.0	2.6
Gross private domestic investment	12.0	7.0	3.1
Government purchases of goods and services	0.9	0.8	1.4
GDP deflator (1992=100) (Percent change)	2.0	1.9	2.1
GDP, (Current dollar) (Percent change)	5.8	4.8	3.8
Federal funds rate (Percent)	5.5	5.5	5.4
Personal income (Percent change)	5.8	5.5	4.2
Corporate profits before taxes (Percent change)	7.9	1.3	-0.2
Nonfarm wage and salary employment (Millions)	122.3	125.5	126.7
(Percent change)	2.3	2.6	1.0
Unemployment rate (Percent)	5.0	4.7	5.1
Housing starts (Millions)	1.48	1.53	1.49
(Percent change)	0.6	3.6	-2.7
New car sales (Millions)	8.2	7.8	7.7
(Percent change)	-3.3	-5.1	-1.8
Consumer price index (1982-84=100)	160.6	163.5	167.6
(Percent change)	2.3	1.8	2.5

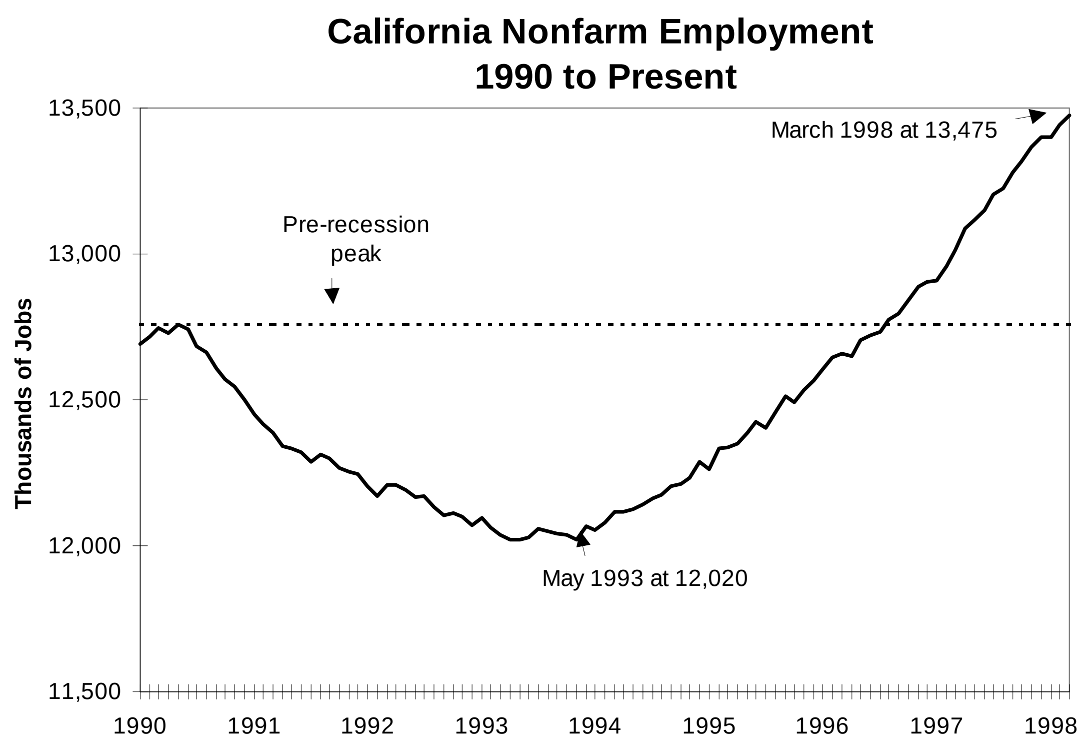
Forecast based on data available as of April 17, 1998. percent changes calculated from unrounded data.

CALIFORNIA

In 1997, California's economy turned in its best performance since the early 1980s. Nonfarm employment growth averaged 3.3 percent for the full year, but was clocked at 3.8 percent in December—adding a half-million new jobs from the year-end 1996 level. The State's jobless rate fell a full percentage point last year. Personal income increased 7.3 percent in 1997, a 13-year high. With inflation of scarcely 2 percent, real purchasing power jumped more than 5 percent last year.

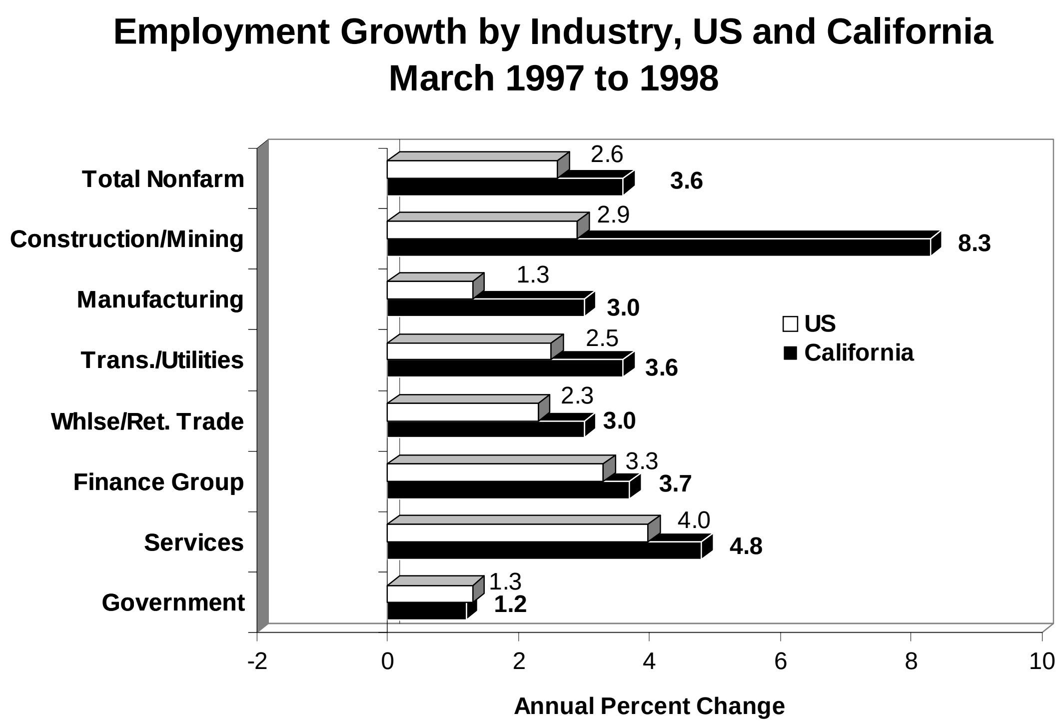
The employment data reflect annual benchmark revisions, published at the end of February, which added 130,000 jobs to annual growth between December 1996 and 1997 (Figure ECON-3). So while many of the forces expected to slow U.S. growth later this year—particularly those originating in Asia—will also affect California, the State's economic growth will be moderating from a much more rapid rate of expansion than was evident when the Governor's Budget forecast was prepared last fall.

FIGURE ECON-3



Despite near-record rainfall, employment growth remained robust in the first quarter of 1998, maintaining year-to-year growth in the 500,000-job range. The State's employment growth is outpacing the nation by a considerable margin, with each of the major private sector industry groups growing faster in California than throughout the nation (Figure ECON-4).

FIGURE ECON-4



Signs of more moderate growth are already beginning to emerge from some quarters. Staff cuts resulting from mergers in finance and aerospace will stall recoveries in these industries later this year and in 1999. However, the settlement of a potential labor dispute in the motion picture industry—which had placed several major productions on hold—points to a resumption of growth in that key segment of the State's economy this year.

There is early evidence of Asia effects in earnings reports from leading California high-technology firms—some of which have been accompanied by announcements of layoffs or a scaling back of new hiring plans. Still, with a backlog of unmet demand for skilled workers in the State's high-technology industries, the Asia-induced slowdown may serve to bring labor markets into better balance in some areas of the State.

Although Asia accounts for a disproportionate share of California exports—more than half the state's overseas sales, or double the share for the other 49 states—it does not follow that the impact of Asia will be twice as severe in the State as compared to the entire nation. Much of California's trade with Asia represents components that are assembled into finished goods for re-export to the U.S. Thus, for firms manufacturing or assembling in Asia, the region's financial problems will often lower costs. The same will be true for foreign competitors, suggesting that price competition will remain intense in the high-tech industries.

Another factor that will help cushion the impact of Asia is the remarkable recovery in NAFTA partner Mexico. California-made exports to the State's closest neighbor surged by 33 percent or $3 billion in 1997. At $12 billion in export sales, Mexico is now California's second leading market, nosing out Canada's $11.5 billion in purchases. Nearly one-quarter of California-made exports are sold to NAFTA partners.

Other market forces, including computer programming and hardware demands associated with the year 2000 problem, as well as the need to retool retail and financial systems in much of Europe for the introduction of the new Euro currency, will also help to offset slower sales to Asia.

California can also expect to benefit from relatively low interest rates, which should provide an extra push to homebuilding activity once the State dries out from the El Niño rains. The prospect of even lower borrowing costs in 1999 should give housing yet another boost next year.

Compared to the January Budget:

- Nonfarm employment growth is revised up by 0.4 percentage point to 3.2 percent this year. In 1999, the increase is boosted by 0.6 percentage point to 2.9 percent. Thus, over the course of this year and next, California is projected to add more than 800,000 new jobs.
- Personal income growth is revised up 0.9 percentage point to 7.2 percent this year, maintaining 1997's exceptionally strong pace. Growth in 1999 is now forecast at 5.7 percent, or 0.3 percentage point less than in the Governor's Budget (Figure ECON-5).
- Because heavy rains have delayed this year's construction season, the homebuilding forecast is maintained at the Budget level of 130,000 units in 1998. Next year's 153,000-unit forecast is 27,000 higher than was forecast in January.

Details of the California forecast are shown in the accompanying Figure ECON-6.

FIGURE ECON-5

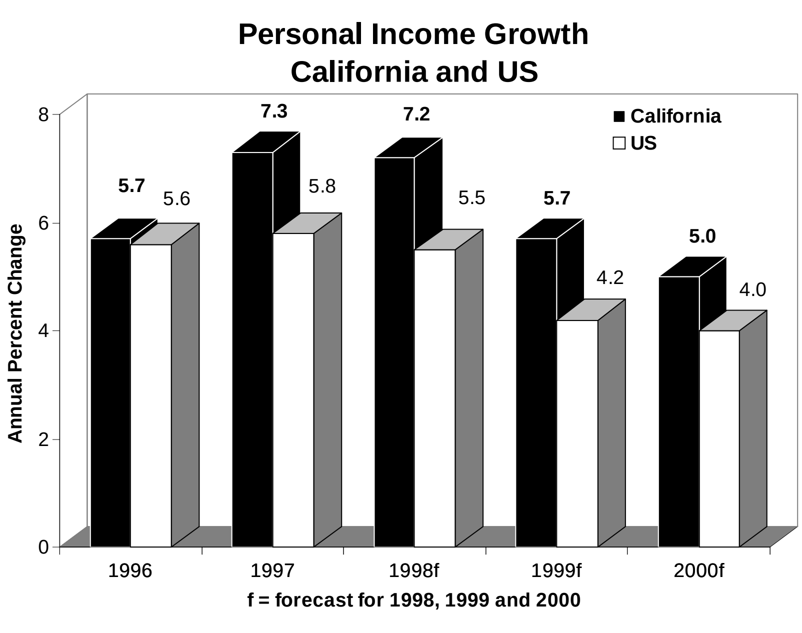


FIGURE ECON-6

Selected California Economic Indicators

	1997	Percent Change	FORECAST 1998	Percent Change	1999	Percent Change
Personal income (Dollars in Billions)	$867.2	7.3%	$929.4	7.2%	$982.1	5.7%
Nonfarm W&S employment (Thous.)	13,166	3.3%	13,584	3.2%	13,975	2.9%
Mining	30	1.3%	30	0.3%	30	0.1%
Construction	554	9.6%	600	8.3%	649	8.2%
Manufacturing	1,914	3.9%	1,965	2.7%	2,001	1.8%
High Technology	515	3.6%	526	2.2%	532	1.1%
Transportation/utilities	662	3.6%	686	3.6%	708	3.2%
Whlse & retail trade	3,054	2.7%	3,132	2.6%	3,205	2.3%
Finance group	755	2.8%	772	2.2%	770	-0.2%
Services	4,054	3.7%	4,228	4.3%	4,406	4.2%
Government	2,144	1.3%	2,172	1.3%	2,206	1.6%
Unemployment rate	6.3%	—	5.6%	—	5.8%	—
Housing permits (Thous.)	111	17.9%	130	17.3%	153	17.4%
Consumer price index	160.5	2.2%	164.0	2.2%	169.6	3.4%

Forecast based on data available as of April 17, 1998. percent changes calculated from unrounded data.

THE ECONOMY

Revenue Estimates

Revenues are projected to be below the 1998-99 Governor's Budget forecast by $10 million for 1996-97 and above by $1.755 billion for 1997-98 and $2.464 billion for 1998-99 for a combined increase of $4.209 billion. These increases are primarily driven by recent cash experience, but also reflect recalibration of the tax models to incorporate the 1996 personal income tax sample data and the revised economic forecast. Based on the May projections, revenues are expected to grow 11.0 percent in 1997-98 and 5.9 percent in 1998-99.

Personal Income Tax

The personal income tax forecast has been increased by $1.47 billion for 1997-98 and $2.11 billion for 1998-99.

The most important factor influencing these changes is the exceptional level of April receipts. Payments received by the Franchise Tax Board for this tax were more than 45 percent higher than those received in April 1997, which was also a strong year. Much of this gain is believed to be driven by stock market activity. Based on the cash received, capital gains are estimated to have increased by 45 percent for the 1997 tax year. Over the last three years, this income component appears to have climbed by almost 180 percent. Since at this time there is no evidence of a business cycle downturn or a turnaround in the stock market, the forecast assumes that capital gains will continue to grow—up 15 percent in 1998 and 5 percent in 1999.

Year-to-date, withholding is running 12 percent above 1996-97 levels. A significant portion of this growth is also tied to stock market activity, as most stock options are reported as wages and are subject to withholding. Continuation of this trend accounts for about one-third of the change in the forecast.

Sales Tax

The sales and use tax revenue forecast for the May Revision has been increased by $170 million in 1997-98 and $460 million in 1998-99. These adjustments are based on recent cash experience and the improved economic forecast. Taxable sales during the first half of the 1997 calendar year increased by 5.5 percent from the prior year, while the third and fourth quarters rose 7.2 percent. Strength in the building and automotive sectors were important contributors to these increases. On a fiscal year basis, revenues are anticipated to be up by 6.9 percent for 1997-98 and 5.6 percent for 1998-99, reflecting continued economic growth throughout the forecast period.

Bank and Corporation Tax

Bank and corporation tax revenues are revised slightly to adjust for the recent cash trend and revised accruals. The 1997-98 revenues were increased by $50 million and 1998-99 revenues were reduced by $45 million. The May Revision estimate reflects modest profit growth through the forecast period.

FIGURE REV-1

General Fund Revenue Forecast
Reconciliation with the Governor's Budget Forecast
(Dollars in millions)

	Governor's Budget	May Revision	Change Between Forecasts	
Fiscal 96-97				
Personal Income Tax	$23,273	$23,273	$0	0.0%
Sales & Use Tax	16,566	16,566	0	0.0%
Bank & Corporation Tax	5,787	5,787	0	0.0%
Insurance Tax	1,200	1,200	0	0.0%
Other Revenues	2,324	2,314	-10	-0.4%
Transfers	70	70	0	0.0%
Total	**$49,220**	**$49,210**	**-$10**	0.0%
Fiscal 97-98				
Personal Income Tax	$25,980	$27,450	$1,470	5.7%
Sales & Use Tax	17,545	17,715	170	1.0%
Bank & Corporation Tax	5,835	5,885	50	0.9%
Insurance Tax	1,224	1,224	0	0.0%
Other Revenues	2,157	2,239	82	3.8%
Transfers	149	132	-17	-11.4%
Total	**$52,890**	**$54,645**	**$1,755**	**3.3%**
Change from Fiscal 96-97	$3,670	$5,425		
Percent Change from Fiscal 96-97	7.5%	11.0%		
Fiscal 98-99				
Personal Income Tax	$27,640	$29,750	$2,110	7.6%
Sales & Use Tax	18,290	18,750	460	2.5%
Bank & Corporation Tax	6,175	6,130	-45	-0.7%
Insurance Tax	1,281	1,281	0	0.0%
Other Revenues	1,990	2,053	63	3.2%
Transfers	7	-117	-124	-1771.4%
Total	**$55,383**	**$57,847**	**$2,464**	**4.4%**
Change from Fiscal 97-98	$2,493	$3,202		
Percent Change from Fiscal 97-98	4.7%	5.9%		

EDUCATION

PROPOSITION 98 GUARANTEE

1997-98 $21.2 million
1998-99 $560.6 million

The May Revision includes a $500 million General Fund augmentation to the Proposition 98 minimum guarantee level in 1998-99. This augmentation will become a permanent part of the ongoing Proposition 98 base amount. Without this augmentation, Proposition 98 appropriations as proposed in the Governor's Budget were estimated to decrease by $60 million in 1996-97 and increase by $228 million in 1997-98 compared to the 1997 Budget Act level. K-12 dollars per pupil were estimated to grow a total of $522 between 1996-97 and 1998-99, from $5,114 to $5,636. While the May Revision reflects significant increases in estimated state revenues, other factors in the Proposition 98 calculation have actually resulted in decreases in the overall calculated guarantee level in 1996-97 and 1997-98 from the January Budget, and would result in a minimal increase in 1998-99.

The primary reasons for this stem from the combination of strong revenue growth at the May Revision and a downward adjustment to the growth in personal income, using the U.S. Commerce Department estimate. Thus, in the May Revision, the calculated state General Fund share of the guarantee increases by $21.2 million in 1997-98 and would increase by $60.6 million in 1998-99.

Other factors in the May Revision affecting Proposition 98 include decreased K-12 average daily attendance (ADA) in 1996-97, 1997-98, and 1998-99 (down 0.02 percent in 1996-97, 0.06 percent in 1997-98, and 0.18 percent in 1998-99, and revised current year local property tax growth estimates (from 3.0 percent to 2.8 percent). May Revision population estimates remain unchanged, except for a slight decrease in the 1997-98 estimate.

As a result of the $500 million augmentation, the revised K-12 dollars per pupil increases another $92 above the January estimate, rising to $5,728 in 1998-99, an increase of 11.8 percent above the $5,124 level in 1996-97 (see Figure EDU-1).

FIGURE EDU-1

Proposition 98
January vs. May Revision
(Dollars in Thousands)

1997-98	January Proposal	May Revision	Change
General Fund	$22,420,700	$22,441,929	$21,229
Local Revenue	10,271,965	10,231,667	-40,298
Total Guarantee	$32,692,665	$32,673,596	-$19,069

1998-99	January Proposal	May Revision	Change
General Fund	$23,992,609	$24,553,169	$560,560
Local Revenue	10,689,205	10,635,511	-53,694
Total Guarantee	$34,681,814	$35,188,680	$506,866

K-12 EDUCATION

1997-98 $ 19 million
1998-99 $493.0 million

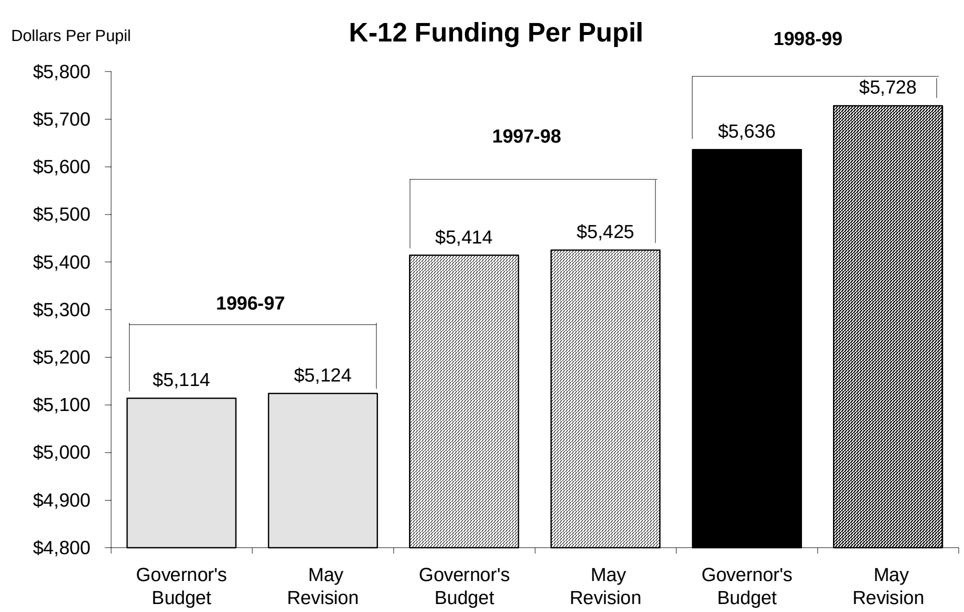
To ensure that K-12 education benefits from the state's continued strong economic growth, the May Revision includes a $450 million General Fund augmentation over the calculated Proposition 98 minimum funding level. The net effect of revisions to ADA, COLA, property taxes, and other technical adjustments is an additional $43 million increase for 1998-99. Total General Fund allocations of $24.0 billion for K-12 education now represent 41.2 percent of the total General Fund Budget.

CURRENT YEAR

School district and county office of education revenue limit continuous appropriations reflect an increase of $42.3 million since the Governor's Budget. Although estimates of ADA decreased, local property tax revenues were down by $33.2 million, which requires an increase in state funds to offset this reduction. After utilizing available one-time funds for that purpose, the May Revision also includes one-time funding for the following proposals.

Charter School Revolving Loan Fund. The May Revision proposes a $5.5 million augmentation of one-time funds to the Charter School Revolving Loan Fund for a total of $6 million. New charter schools (that are not conversions of existing schools) are eligible to receive interest-free loans of up to $50,000 to pay for start-up costs. With the recent enactment of Chapter 34, Statutes of 1998, which allows up to 250 charter schools to operate in 1998-99 and an additional 100 in each subsequent fiscal year, new sources of start-up funding will be critical. This $6 million fund will provide loans for at least 120 new charter schools.

FIGURE EDU-2



Lead Testing of K-12 Drinking Water. The Department of Health Services' recently released report, Lead Hazards in California's Public Elementary Schools and Child Care Facilities, identified drinking water as a possible area of concern. Consistent with the report's findings, the May Revision includes $1.1 million to ensure that all public schools have funds available to test their drinking water for lead contamination. This level of funding will provide $120 for each elementary school and $230 for each junior high, middle school and high school.

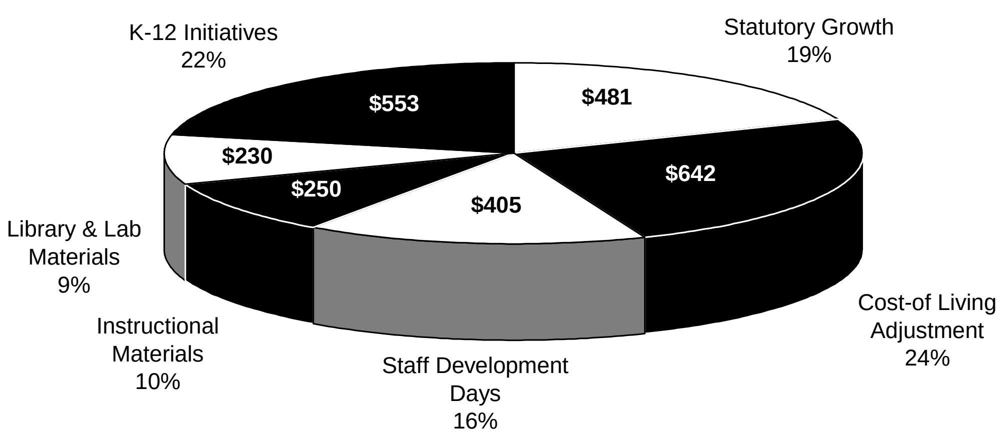
Technical Assistance for Federal Reimbursement Claiming. The May Revision proposes $3 million for a three-year effort to help school districts sustain ongoing funding for Healthy Start Programs. Based on the efforts of the San Bernardino County Office of Education, which has piloted the development of a technical assistance model, regionally focused assistance sites will provide districts the tools to maximize federal reimbursements for Medi-Cal and case management service.

BUDGET YEAR

For 1998-99, State General Fund support of K-12 education will increase by $493 million which results from changes in property tax growth ($46.7 million), statutory growth (-$83.1 million), revisions to the proposed statutory COLA from 2.22 percent to 2.18 percent (-$15.1 million), and the K-12 share of the $500 million augmentation of the minimum Proposition 98 funding level ($450 million). The reduction of the PERS contribution rate frees up an additional $267.6 million within the guarantee. This results in a total of $760.6 million in available resources.

FIGURE EDU-3

Proposition 98 General Fund
K-12 Expenditures
What the $2.6 Billion Increase Buys
In 1998-99
(Dollars in Millions)



The May Revision includes the following significant changes for 1998-99:

- $250 million for instructional materials.
- $230 million for library and science lab materials and equipment.
- $55 million for the cost of staff development days as part of the Instructional Time Initiative.
- $50 million to expand the Remedial Reading Summer School Program to include remedial instruction in math, and to serve more pupils.
- $50 million for a new after school incentive grant program to facilitate local community and school based partnerships that include a strong academic assistance component.
- $40 million for low performing schools.
- $10 million for scholastic aptitude preparation courses for low income pupils.
- $3 million to initiate a technical assistance program for Healthy Start.
- $55.5 million for a variety of teacher training and quality programs.

Instructional Materials. The Governor's Budget provides $40 million for high quality, content-rich mathematics staff development designed to give math teachers the in-depth knowledge necessary to prepare California's pupils to meet the State's recently adopted mathematics standards. To complement the staff development proposal and to further ensure that pupils are internationally competitive in mathematics, the May Revision proposes targeting $250 million for the purchase of standards-based mathematics instructional materials. This funding is an ongoing resource to help schools purchase standards-aligned instructional materials in the other core subjects as they are adopted.

School Library Materials and Science Laboratory Materials and Equipment. Over the past several years, the Administration has funded initiatives aimed at improving the reading skills of California's pupils. Often referred to as "the gateway skill," reading ability opens the door for children to explore any number of subjects while sharpening their reading skills. Funds have been provided for instructional materials in reading; a similar investment should be made in school libraries. The May Revision proposes to increase funding for science laboratory materials and equipment as well. To assist schools in expanding library holdings and purchasing science laboratory materials and equipment, the May Revision proposes $230 million.

Instructional Time/Staff Development. The May Revision includes an additional $55 million for the cost of buying out staff development days as proposed in the Governor's Budget, for a total of $455 million. This augmentation will increase the per teacher rate from $220 to $250 per day of staff development.

Remedial Reading/Math. The Governor's Budget includes $10 million for a remedial reading program for pupils in grades 3 through 6.

The May Revision augments and expands this program by adding $50 million which will serve 10 percent of the pupils in grades 3 through 6 in remedial reading and math. School districts may offer this program after school, on Saturdays, during intersession, or in the summer.

After School Programs. The May Revision includes $50 million for a comprehensive after school program. The program will provide ongoing incentive grants to elementary and middle school sites, will include a strong educational component, and will require matching funds. Eligibility will be focused on elementary, middle, and junior high sites with concentrations of low-income students or schools with higher-than-average school crime rates.

Low Performing Schools. The Governor's Budget included a $3 million set-aside for pending legislation to assist low-performing schools. Coupled with the Governor's proposal to provide Opportunity Scholarships to students who attend low performing schools, the May Revision increases this amount to $40 million for a new program designed to help improve student achievement in low performing schools. For schools ranked in the lowest five percent based on the results of the Standardized Testing and Reporting (STAR) test, the program would provide for an optional early intervention phase commencing in 1998-99. A mandatory program would commence in 2000-01. Low-performing schools will be assisted by an Educational Crisis and Management Assistance Team (ECMAT), to be funded and operated within the existing Fiscal Crisis and Management Assistance Team (FCMAT), a statewide fiscal management assistance and training unit operated by a county office of education.

Based on an assessment and recommendation by ECMAT, schools will develop and implement a school recovery plan. State financial assistance will be provided on a case-by-case basis, depending on local circumstances as certified by the ECMAT.

Scholastic Aptitude Test (SAT) Preparation Courses. To encourage a greater number of low-income students to take the SAT, the May Revision includes $10 million to establish the SAT Preparation Grant Program. Under this program, grant funds will be made available to public high schools to assist low-income students in preparing for the SAT.

Technical Assistance for Healthy Start Sustainability Efforts. The May Revision provides $3 million for a three-year pilot program designed to attract more corporate sponsorships to help sustain Healthy Start Programs in a collaborative effort to expand school-linked service programs. The program will use the successful efforts of non-profit organizations as a model to establish and expand these partnerships.

Teacher Training and Quality. The May Revision proposes to significantly expand and build upon the teacher training and quality initiatives in the January budget. These proposals reflect the Administration's continued commitment to a sufficient supply of highly-qualified and well-trained teachers.

- $33 million is provided to expand the Beginning Teacher Support and Assessment program (BTSA). This increase will allow 100 percent of the more than 20,000 new teachers each year to participate in BTSA, which has been highly successful in helping new teachers improve their performance and increase the likelihood that they will remain in the teaching profession.

- $8 million is provided to expand the Pre-Intern program by 4,000 additional pre-interns, for a total of 5,000 new pre-interns in 1998-99. The pre-intern program provides support and direction for teachers who would otherwise be teaching with an emergency permit. This program is designed to improve performance and increase the rate at which these teachers remain in the profession.

- $3.5 million is included to expand the Alternative Certification program, which provides support for people entering an internship program to become credentialed teachers while teaching in the classroom. The January budget included $7.5 million for this program; this augmentation brings the total program level to $11 million.

- $10 million is proposed to acknowledge each teacher who achieves National Board certification with a one-time salary bonus of $10,000. This incentive should encourage teachers to obtain National Board certification, which recognizes teachers of the highest quality.

In addition, there are several non-Proposition 98 programs proposed, which are further described in the Higher Education section:

- $10 million is proposed for a new Cal Grant T program for teachers.

- The Assumption Program of Loans for Education (APLE) will be expanded eleven-fold to serve a total of 4,500 students, including teachers from outside California, and the total amount of loan forgiveness will increase from $8,000 to $11,000.

- $2 million is provided to the California State University (CSU) for a new teacher recruitment program.

- $5 million is provided to CSU to develop an innovative teacher preparation program.

- $6 million is provided to CSU to serve another 1,200 students in its teacher preparation programs.

Finally, $1.7 million from the Teacher Credentials Fund is provided to the Commission on Teacher Credentialing for additional grants to develop teacher preparation programs that integrate theory and practice, for support of the expanded BTSA and pre-intern programs, and to improve its service level and meet additional workload resulting from Class Size Reduction.

California Community Colleges

1997-98 $2.2 million
1998-99 $69.6 million

Current Year

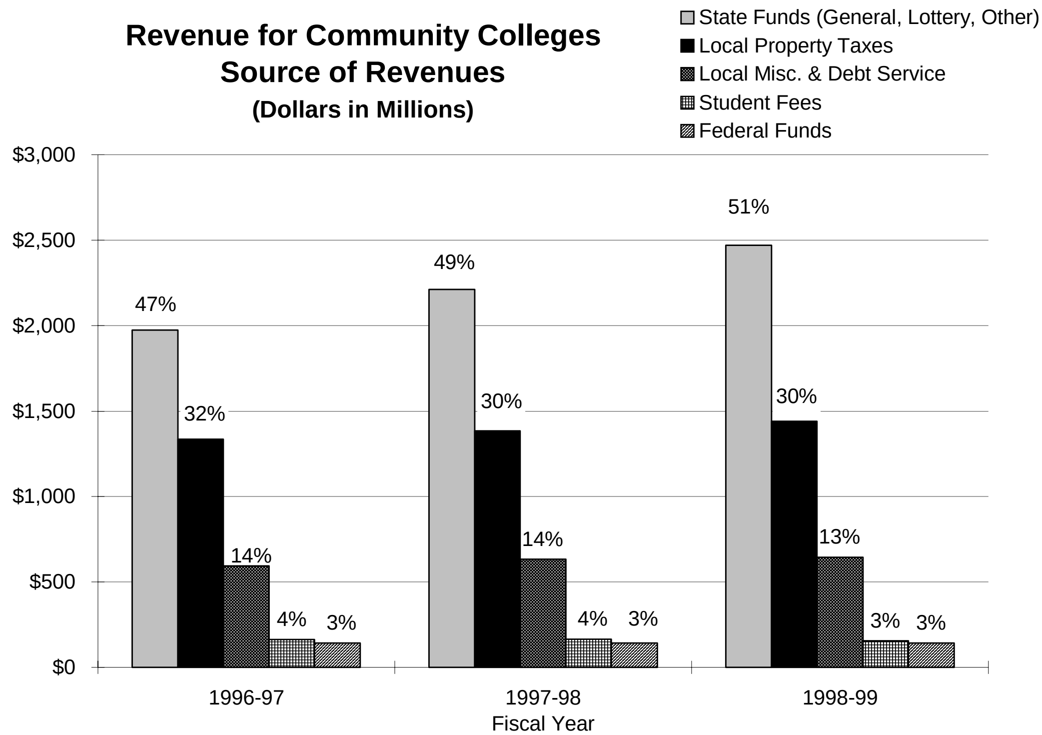
The Governor's Budget included $51.2 million in one-time funds to satisfy the revised minimum Proposition 98 guarantees for prior years. The May Revision includes an additional $2.2 million in one-time funds from the 1997-98 guarantee and an additional $1.0 million for 1996-97. Of the $54.4 million available, $6.7 million will be used toward the estimated property tax shortfall in the current year. The balance will be allocated as one-time funds to the community colleges for the same purpose as proposed in January.

Budget Year

Overall revenues for Community Colleges are estimated at $4.8 billion in 1998-99, a $317.1 million increase over the estimate for 1997-98 (7.0 percent). Absent one-time funding increases from the current year guarantee totaling $33.9 million, ongoing expenditure growth included in the May Revision is 7.8 percent.

The May Revision includes a total Proposition 98 General Fund increase of $69.6 million over the Governor's Budget, including the following significant ongoing changes:

FIGURE EDU-4



Partnership for Excellence. The May Revision proposes an increase of $50 million to this new program for total funding of $100 million. The program will provide a 3-percent increase in general purpose funding in exchange for local accountability and improved student outcomes. This program presents an opportunity for districts to improve the quality of current instructional efforts by providing the investment necessary for modifying programs and services to improve student performance in the areas of college transfer readiness, completion of degrees and certificates, remedial education and providing work-ready employees to assist the business community.

Economic Development. The May Revision proposes a $12.8 million increase for the Economic Development Program. The Industry Driven Regional Collaboratives program provides funds on a matching basis for curriculum design, instructional cost, and equipment to encourage expansion of education and workforce training programs which support California's regional economies, consistent with the needs identified in regional plans pursuant to Chapter 1057, Statutes of 1996, and with the U.S. Department of Commerce's Economic Strategy Panel priorities. This augmentation allows the Chancellor's Office to complete funding for all 38 meritorious applications from the current year, initiate additional new programs and augment the program award levels to the extent the partnerships are prepared to expand in the budget year.

Other Adjustments. The May Revision includes an $8.1 million increase to reflect the revised estimate of property taxes, as well as a $1.3 million decrease to reflect the change in the COLA index from 2.22 percent to 2.18 percent for both general apportionments and categorical programs.

UNIVERSITY OF CALIFORNIA (UC)

1997-98 No Change
1998-99 $134 million

The May Revision proposes an ongoing increase of $49 million for enrollment, restoration of the Subject Matter Projects, and development of a new health research program focused on substance abuse treatment and annuitant benefits. In addition, one-time funds are included to meet a number of high-priority infrastructure and education material needs. Funding is proposed for the following significant changes:

- $85 million in one-time funds to enable UC to address its deferred maintenance backlog ($25 million), to replace and repair instructional equipment ($25 million), to upgrade computer infrastructure and technology ($25 million), and to upgrade and stock library materials ($10 million).
- $23 million to fund an additional 3,200 full-time equivalent students.
- $12.2 million to reestablish funding for the Subject Matter Projects. The projects will now be fully aligned with State Board of Education standards, be limited to core academic subjects and require that 75 percent of the teachers participating be from low-performing schools; governance will be strengthened to ensure adherence to state policies. The program will be evaluated by June 30, 2002.
- $11.8 million for medical research at the University of California, San Francisco campus. This research will investigate various pharmacological treatments for problems related to substance abuse.
- $2 million for annuitant benefits.

CALIFORNIA STATE UNIVERSITY (CSU)

1997-98 No Change
1998-99 $116.6 million

The May Revision proposes an increase of $31.6 million ($25.6 million ongoing and $5 million one-time) to provide funding for teacher recruitment and education, as well as to provide salary and annuitant benefit increases for staff. In addition, $85 million in one-time funds is proposed to meet infrastructure and education material needs in the 22-campus system. Funding is proposed for the following significant changes:

- $85 million in one-time funds to enable CSU to reduce its deferred maintenance backlog ($25 million), to replace and repair instructional equipment ($25 million), to upgrade computer infrastructure and technology ($25 million), and to upgrade and stock library materials and periodicals ($10 million).
- $17.8 million to provide an additional one-percent salary increase to assist CSU in closing its salary lag. These funds are provided for performance-based salary increases, subject to collective bargaining agreements that include pay-for-performance programs. An additional $0.8 million is included to reflect the increased cost of annuitant benefits.

- $11 million to expand teacher preparation programs, including $5 million in one-time funds to develop a stand-alone distance learning teacher preparation program, and $6 million to fund an additional 1,200 full-time equivalent (FTE) students in CSU's existing programs, bringing total enrollment in teacher preparation programs to 13,800 FTE students.

- $2 million for a statewide informational and recruitment campaign to expand college students' interests in pursuing a career in education. This program will be operated by the CSU's California Center for Teaching Careers.

The May Revision proposes $11.7 million General Fund to move forward immediately on two critical CSU capital outlay projects:

- CSU Fresno Infrastructure Improvement ($7.2 million)

- CSU Pomona Chilled Water Central Plant Improvement ($4.5 million)

STUDENT AID COMMISSION

1997-98 No Change
1998-99 $10.2 million

The May Revision proposes $10 million for a new Cal Grant program for future teachers to be called Cal Grant T. Grants in this program would be provided to students enrolled in teacher preparation programs and would cover student fees, consistent with award levels in the Cal Grant A Program. This augmentation would fund approximately 3,000 new awards.

The Administration is proposing to increase the size of the Assumption Program of Loans for Education (APLE) from 800 participants annually, as proposed in the January budget, to 4,500. This very successful program rewards persons teaching in shortage areas, as defined by the Superintendent of Public Instruction, by assuming a portion of their student loan obligations. The new awards would be provided to 2,000 APLE participants teaching in critical shortage areas, with an additional 2,000 participants teaching math and science. Also, 500 teachers recruited from outside of California would be eligible to participate. Participants who teach for four years will be eligible for $11,000 in student loan forgiveness. An additional $230,000 is proposed for support costs related to this proposal. Funding for loan forgiveness payments will be provided in future years, after the new APLE recipients complete the required period of teaching.

Health and Welfare

The May Revision includes $15.2 billion General Fund for Health and Welfare programs, an increase of $121.3 million from the Governor's Budget, and an $88.5 million increase above totals after Finance Letters were submitted to the Legislature.

Caseload trends overall in Health and Welfare programs are generally lower than projected in January, including continued declines in the California Work Opportunity and Responsibility to Kids (CalWORKs) and Medi-Cal programs.

The May Revision assumes restoration of the Supplemental Security Income/State Supplementary Payment program cost-of-living adjustment and rate increases in various Department of Developmental Services and Department of Rehabilitation programs providing services to developmentally disabled individuals. The May Revision also proposes rural demonstration projects to enhance existing health care delivery networks for special populations and to address geographic access barriers; additional funding for further expansion of adult protective services; and, funding for a state contribution for a new regional burn and trauma center in Fresno.

Department of Health Services

Medi-Cal

1997-98 -$12.5 million
1998-99 -$16.6 million

Current Year

The May Revision projects total Medi-Cal expenditures of $18.3 billion (all funds) an increase of $13 million over the Governor's Budget. The General Fund estimate has decreased by $12.5 million to $6.8 billion for benefits and administrative costs.

The number of persons projected to be eligible for Medi-Cal in the current year is down from the January projection by 70,200 eligibles to 5,024,400. This represents a caseload decline of 1.4 percent from the Governor's Budget and a decline of 6.6 percent from 1996-97. While caseload is down by 1.4 percent, costs are nearly flat as Medi-Cal expenditures are affected more by utilization of services.

The net General Fund decrease is primarily the result of the following:

- A reduction of $8.2 million ($5.4 million General Fund) for capital debt payments for the hospital construction program.
- A reduction of $31.2 million ($7.8 million General Fund) in administrative costs for establishing Medi-Cal eligibility for families who were previously eligible for Aid to Families with Dependent Children (AFDC) but who choose either not to participate in the CalWORKs program or who are not eligible for CalWORKs.
- An increase of $45.2 million General Fund for prenatal services to undocumented immigrants primarily resulting from a court order preventing these services from ending on February 1, 1998,

as originally anticipated in the budget; instead the May Revision continues funding through June 30, 1998.

- An increase of $128.7 million in voluntary governmental transfers used to match federal funds which are disbursed to disproportionate share hospitals as determined by the California Medical Assistance Commission.

- Various other changes, primarily relating to caseload and utilization, which cost $7.1 million. Although total costs are up, the share of the total is down $44.5 million General Fund.

BUDGET YEAR

Total Medi-Cal expenditures are estimated to be $18.4 billion. The General Fund estimate has decreased by $18.6 million to $6.8 billion. The average monthly Medi-Cal caseload is projected to be 4,839,600, which represents a reduction of 107,000 or 2.2 percent below the estimate reflected in the Governor's Budget, and 3.7 percent below the revised 1997-98 level. As discussed above, the decline in Medi-Cal caseload does not correlate directly to declining costs due to varying levels of program use by different Medi-Cal beneficiary aid categories.

Significant changes resulting in the net $137.8 million ($18.6 million General Fund) decrease include the following:

- An increase of $12.4 million General Fund to replace county contributions to the Medi-Cal Administrative Claiming Fund and the Targeted Case Management Claiming Fund which will allow counties to expand local health programs.

- Inclusion of $4.4 million ($1.7 million General Fund) for a "bridge" program to provide health benefits to children who become ineligible for Medi-Cal, for a period of one month, allowing the family time to apply for benefits for the children under the Healthy Families Program (HFP). This "bridge" program is necessary because the Health Care Financing Administration (HCFA) rejected the State's proposal to provide one month of continuing eligibility for children becoming ineligible for Medi-Cal to allow time for the family to complete the HFP application process. Eliminating the continuing eligibility component results in a reduction of $27 million ($9.2 million General Fund).

- An increase of $50 million ($25 million General Fund) to be made available for a new regional burn and trauma center in Fresno.

- A reduction of $20.8 million ($5.2 million General Fund) in administrative costs for reduced caseload for establishing Medi-Cal eligibility for families not in the CalWORKs program.

- An increase of $145.7 million ($73.7 million General Fund) for long-term-care rate increases which take effect August 1, 1998.

- An increase of $14.5 million ($7.2 million General Fund) for the addition of smoking cessation products to the Medi-Cal contract drug list.

- An increase of $14.1 million ($6.9 million General Fund) which will be made available to the Department of Developmental Services upon redesign of the rate setting methodologies for day programs and in-home respite providers.

- A reduction of $90.7 million ($45.3 million General Fund) resulting from increased savings associated with drug rebates.

- Reduced federal claiming for Local Education Agency providers, the Multi Purpose Senior Services Project and Targeted Case Management result in a reduction in federal funds of $62.6 million.

- Payments to disproportionate share hospitals are projected to decrease by $7.9 million ($3.9 million General Fund).

- Other adjustments for caseload and service utilization changes result in a net reduction of $164.9 million ($81.6 million General Fund).

PUBLIC HEALTH

1997-98 -$0.9 million
1998-99 $3.7 million

CURRENT YEAR

AIDS Drug Assistance Program (ADAP)

The May Revision proposes increased expenditure authority of $2.6 million from newly available federal Ryan White Care Act Title II funds to meet projected program demand and to support increased administrative costs associated with the transition to a centralized statewide pharmaceutical benefit management contract and delayed implementation of that contract.

Caseload Programs

The revised General Fund estimate for total child health screens in the Child Health and Disability Prevention (CHDP) program is lower than the Governor's Budget estimate by 2,824 screens; the average cost per screen will be lower, resulting in a net savings of $1.4 million. The Cigarette and Tobacco Products Surtax Fund (CTPSF) portion of this caseload will be 46,184 screens higher than the Governor's Budget with lower average costs per screen, generating a net reduction of $0.5 million.

The revised estimate for total caseload in the California Children's Services (CCS) program will decrease by 1,340 cases, with higher costs per case, for a net increase of $0.2 million.

The revised estimate for total caseload in the Genetically Handicapped Persons Program (GHPP) is higher than the Governor's Budget. Caseload will increase by 77 cases with lower average costs per screen, for a General Fund cost increase of $0.4 million.

BUDGET YEAR

AIDS Drug Assistance Program (ADAP)

The May Revision reflects a net General Fund decrease of $4.2 million as a result of the following: (1) a net savings of $8.9 million due to increased efficiencies resulting from the centralization of pharmaceutical services offset by increased program utilization, and (2) an increase of $4.7 million for the addition to the ADAP drug formulary of new drugs anticipated to be approved for use by the federal government. The May Revision continues to support anticipated program demand.

Rural Demonstration Projects

The May Revision includes $9 million ($5 million General Fund) for rural demonstration projects to improve access to health care services for medically underserved and uninsured populations. This augmentation is comprised of $6 million ($2 million General Fund and $4 million federal Title XXI funds) to develop and enhance existing health care delivery networks for special populations and to address geographic access barriers, and $3 million (General Fund) to address gaps in the rural health care delivery infrastructure.

Lead-Safe Schools Program

In response to a recent study, a Finance Letter proposed $328,000 to develop voluntary lead-safe school guidelines for use by public elementary schools. The May Revision proposes an additional $647,000 to provide schools with training regarding lead-safe practices. The May Revision also includes a related $1.1 million (Proposition 98) proposal to test lead levels in school drinking water. This proposal is reflected in the budget of the California Department of Education.

Caseload Programs

The revised General Fund estimate for total child health screens in the CHDP program is lower than the Governor's Budget estimate by 1,293 screens; the average cost per screen will be lower, resulting in a net savings of $0.9 million. The CTPSF portion of this caseload will be 28,080 screens higher than the fall estimate with lower average costs per screen, generating a net reduction of $1.1 million.

The May Revision reflects an overall increase of $3.5 million for the CCS program. The revised budget reflects the following adjustments:

- a decrease of $2.8 million resulting from 1,630 fewer cases;
- an increase of $0.4 million due to a higher cost per case;
- an increase of $3.0 million to expand the Medical Therapy Program to comply with federal timelines and California Department of Education hearing officer rulings;
- an increase of $0.3 million to support increased telecommunication and equipment costs for the Children's Medical Services Enhancement Project; and
- an increase of $2.6 million to reflect a technical shift of funding for the Early Childhood Family Education Program.

The revised estimate for total caseload in the GHPP is higher than the Governor's Budget. Caseload will increase by 94 cases with lower average costs per screen, for a General Fund cost reduction of $0.3 million.

Cigarette and Tobacco Products Surtax Fund—Proposition 99 Tobacco Tax

The May Revision reflects increased Cigarette and Tobacco Products Surtax Fund (CTPSF) revenues of $4.1 million in 1997-98 and $6 million in 1998-99. An additional $6.4 million is available primarily as a result of caseload cost decreases in the Breast Cancer Early Detection Program and the

Child Health and Disability Prevention program. Therefore, $16.5 million is available for allocation in 1998-99. These revenues are comprised of $2 million from the Health Education Account, $3.5 million from the Hospital Services Account, $1 million from the Physician Services Account, $0.5 million from the Research Account, $1.2 million from the Public Resources Account, and $8.3 million from the Unallocated Account.

The May Revision proposes to allocate these one-time funds to health education, county health services, and research programs focused on reducing tobacco use, particularly among youth and young adults, as follows:

Department of Health Services. An increase of $2 million (from the Health Education Account) is proposed for the Media Campaign; $12.6 million (from the Hospital Services Account, Physician Services Account, and Unallocated Account) is proposed for the California Healthcare for Indigents Program ($9.1 million), the County Medical Services Program ($1.5 million), and the Rural Health Services Program ($2 million).

University of California. An increase of $0.5 million (from the Research Account) is proposed for the University's program of applied research on tobacco use with an emphasis on youth and young adults.

Managed Risk Medical Insurance Board. An increase of $0.2 million (from the Unallocated Account) is proposed for the Access for Infants and Mothers (AIM) Program to offset a reduction in federal funding resulting from a decrease in the number of children for whom federal Title XXI Healthy Families Program funds may be claimed.

Public Resources Account. $1.2 million will remain in the Public Resources Account reserve to enhance the State's flexibility to address priority ongoing public resource projects due to the volatility of the account.

In addition, a fund shift of $450,000 from the CTPSF to the Breast Cancer Control Account is also proposed for breast cancer early detection services.

MANAGED RISK MEDICAL INSURANCE BOARD (MRMIB)

1997-98 $1.1 million
1998-99 $1.3 million

The Healthy Families Program (HFP) provides health insurance coverage for children not eligible for Medi-Cal in families with incomes below 200 percent of poverty. The HFP is expected to enroll children effective July 1998, as proposed in January. The May Revision includes increased expenditures of $1.1 million in 1997-98 and $1.3 million in 1998-99. There are no revisions to enrollment estimates or benefit costs.

CURRENT YEAR

A General Fund deficiency of $1.1 million to avoid potential cash flow problems due to the uncertainty of timing for the availability of the first federal Title XXI funds and the federal limitation on administrative costs of 10 percent of total HFP expenditures. This deficiency is to be repaid when federal funds become available for these purposes.

BUDGET YEAR

- An increase of $6.3 million ($2.1 million General Fund) for the administrative vendor contract.
- A reduction of $3.8 million ($1.3 million General Fund) to reflect the payment of the application assistance fee by the Department of Health Services, rather than by MRMIB.
- An increase of $1.4 million ($0.5 million General Fund) due to lower average premium payments.
- Authorization for a General Fund loan, in order to deal with potential continuing cash flow problems associated with the receipt of federal funds for administrative costs which exceed the 10-percent limitation.

DEPARTMENT OF DEVELOPMENTAL SERVICES

1997-98 No Change
1998-99 $57.9 million

In 1998-99, population in the Developmental Centers is projected to be 246 clients above the 3,498 included in the Governor's Budget, at a cost of $11 million.

The Regional Center (RC) population is projected to decrease by 1,445 clients from the projection of 148,545 clients reflected in the Governor's Budget, resulting in a reduction of $5.3 million. Case manager positions have been adjusted commensurate with the decreased client population, resulting in an additional reduction of $3.2 million. The budget for the RCs has also been adjusted to reflect a decrease in allowable federal funding through the Home and Community-Based Services Waiver.

The Governor's Budget proposed to increase the training and wages of community care facility (CCF) direct-care staff. The May Revision modifies that proposal to provide an overall 9.3 percent

CCF rate increase effective January 1, 1999, with statutory change requiring the funds to be used for salaries and benefits of direct care staff, making successful completion of training or competency exams a prerequisite for continued employment, and requiring the Department to report on the impact that wage increases and training have on employee attrition rates. Additionally, CCFs will be provided a 3-percent rate increase and pass-through of the 2.84-percent SSP COLA (applied to the entire SSI/SSP rate), resulting in an additional 1.1-percent rate increase. These adjustments result in additional costs of $15.7 million.

The May Revision also includes $7.2 million to provide wage increases for respite workers and $5.1 million to renegotiate rates for Supported Living Services (SLS) providers, along with statutory change ensuring that the renegotiated rates maintain the cost-effectiveness of the SLS program. Additionally, the May Revision provides a $27.4 million set-aside for rate increases for day programs and in-home respite agencies, upon the establishment of a new rate-setting methodology which includes performance outcome measures.

DEPARTMENT OF REHABILITATION

1997-98 -$3.9 million
1998-99 $2.0 million

CURRENT YEAR

The May Revision reflects a decrease of 599 clients in the Habilitation Services Program and an increase of 349 clients in the Vocational Rehabilitation Program for a net decrease in General Fund costs of $3.9 million.

BUDGET YEAR

The May Revision reflects a net increase in General Fund costs of $2 million due to a combination of changes. These changes include a decrease of 557 clients in the Habilitation Services Program and an increase of 378 clients in the Vocational Rehabilitation Program for a decrease in General Fund costs of $3.9 million. Offsetting the caseload cost decrease is an increase of $5.9 million General Fund, which includes the following:

- $4.7 million for the Habilitation Services Program and Vocational Rehabilitation Program for a 6-percent rate increase for work activity and supported employment services provided to developmentally disabled clients.

- $.8 million for the Business Enterprise Program for the blind, for increased costs resulting from a judgment.

- $.4 million to provide transitional needs services for Vocational Rehabilitation work activity clients' social adjustment prior to starting employment.

EXPENDITURES

DEPARTMENT OF MENTAL HEALTH

1997-98 $7.1 million
1998-99 $9.1 million

CURRENT YEAR

The Sexually Violent Predator (SVP) population in the state hospitals is projected to increase by 134 above the 1997 Budget Act, at a cost of $7.1 million.

BUDGET YEAR

The population in the state hospitals is projected to increase by 59 clients above the original estimate of 4,172 reflected in the Governor's Budget, at a cost of $3.4 million. This increase is comprised of the following projected population changes: (1) judicial and penal code commitments are increased by 15; (2) county-purchased Lanterman-Petris-Short beds are increased by 52; (3) the SVP population, is increased by 83; and (4) the number of beds purchased by the Department of Corrections is reduced by 91.

The Conditional Release Program is projected to increase by $1.2 million for the following: (1) an increase of 31 clients; (2) an increase of 15 residential transitional beds; and (3) funding to meet court-ordered requirements for 24-hour supervision, electronic monitoring, and a specialized day treatment program for an SVP released by the court and placed into the program.

The May Revision also includes a net increase of $4.5 million for mental health managed care to reflect the following: (1) changes in the number of program eligibles; (2) a reduction in the Consumer Price Index; (3) an increase in Institute for Mental Disease ancillary services; (4) a temporary delay in the transfer of Medi-Cal psychiatric nursing facility services to DMH; and (5) an increase to reflect the transfer of mental health minor consent services to managed care.

DEPARTMENT OF SOCIAL SERVICES

1997-98 -$31.9 million
1998-99 -$8.7 million

Compared to the Governor's Budget, 1997-98 General Fund local assistance expenditures for the Department of Social Services (DSS) are estimated to decline to $5.9 billion, a $34.9 million reduction, inclusive of Finance Letter changes. For 1998-99, the estimated General Fund cost has declined by $27.4 million, to a revised total of $6 billion, inclusive of Finance Letter changes. Caseload trend reductions in the CalWORKs, Non-Assistance Food Stamps, and Supplemental Security Income/State Supplementary Payment (SSI/SSP) programs contribute toward these projected savings.

For 1997-98, a $2.9 million General Fund state operations increase is proposed to backfill the loss of federal funding related to child support automation, with a corresponding local assistance the backfill of $30.9 million. State operations funding of $10.4 million General Fund (and 137 temporary positions) is proposed for 1998-99 for continuation of disaster assistance related to the 1998 winter storms; $21.5 million has already been provided in 1997-98 pursuant to Section 8690.6 of the Government Code.

CalWORKs

For 1997-98, CalWORKs trend caseload is expected to be 735,000 average monthly cases with 2,156,000 recipients, a caseload decrease of 12.8 percent from 1996-97. For 1998-99, the trend caseload is forecast to be 673,000 cases with 1,972,000 recipients, an 8.4-percent caseload decline from the currently projected 1997-98 figure. The full implementation of CalWORKs by December 1998 and continued economic strength in the budget year are expected to result in a further projected caseload decline to 665,000 with 1,899,000 recipients.

General Fund spending for CalWORKs within DSS, including offsets for child support collected on behalf of recipients, will be $2 billion in 1997-98 and $1.9 billion in 1998-99. These amounts are $25.5 million and $56.3 million below the Governor's Budget, respectively. The following table displays the CalWORKs spending for all program areas in DSS, excluding child support collections, plus CalWORKs-related spending under other departments such as the California Department of Education, the California Community Colleges, and the Department of Health Services.

FIGURE HW-1

1998-99 CalWORKs
(Dollars in millions)

	January	May
Caseload	699,000	665,000
Total Federal, State, and County	$7,137.6	$7,448.8
Temporary Assistance for Needy Families (TANF) Block Grant Available (including carry-forward)	$4,223.1	$4,543.6
Tribal TANF Block Grant Transfer	—	$1.9
TANF Block Grant Expenditures	$4,223.1	$4,541.7
State Funds (inclusive of other agency maintenance-of-effort [MOE] spending)	$2,735.9	$2,727.9
County Funds	$178.7	$179.2
State-County TANF MOE Requirement	$2,914.6	$2,907.1

EXPENDITURES

Major CalWORKs changes proposed in the 1998-99 May Revision include the following:

- $36.1 million General Fund increase for mental health treatment services for recipients.
- $56.5 million General Fund and a $49.7 million TANF increase in incentive payments for counties.
- $5.4 million General Fund and $171.2 million TANF for increased child care within DSS for allocation to the counties. This funding approach is in keeping with the counties' role in CalWORKs and assures that families are provided with child care necessary to transition from aid. This amount includes a reappropriation of unspent 1997-98 county block grant funds, which counties may allocate to child care or other supportive services as the need exists.

County Administration

The General Fund cost of county administration, exclusive of CalWORKs administration, is expected to increase by $22.7 million in 1997-98, primarily due to changes in information technology costs and schedules. While 1998-99 expenditures will increase by $28.5 million compared to January, Finance Letters related to automation projects represent $18.3 million of this increase. Therefore, the May Revision increment of change for 1998-99 is an increase of $10.2 million, primarily for increased Foster Care and Food Stamp caseload adjustments.

CHILDREN'S PROGRAMS

Child Welfare Services

The May Revision reflects a General Fund cost increase of $19.3 million. This expenditure change is primarily due to a caseload increase of 7.2 percent. The May Revision includes a $336,000 increase to the Child Welfare Training Program to conduct structured decision-making training for social workers in additional counties. This training will allow social workers to better determine the appropriate steps to protect a child.

Foster Care

The May Revision includes $50 million General Fund as a reserve for improving California's foster care system. These foster care system reforms will be developed with the involvement of the Legislature and other interested parties.

The May Revision reflects General Fund increases of $22.4 million for 1997-98 and $12.2 million for 1998-99 in the Foster Care Program. Caseload growth is expected to be 9.6 percent in 1997-98 and 9.3 percent in 1998-99.

Child Care

The May Revision reflects a decrease of $60.7 million for 1997-98, of which $8 million is General Fund and $52.7 million is TANF. The May Revision proposes to reappropriate these funds for CalWORKs child care in 1998-99.

For 1998-99, the May Revision adds $5.4 million General Fund and $171.2 million TANF to the Governor's Budget to expand CalWORKs child care. This total is comprised of the child care reappropriation, a $125.3 million TANF reappropriation from CalWORKs services to CalWORKs child care, and savings in Cal-Learn and Trustline. This overall funding increase for 1998-99 will allow counties flexibility to meet the anticipated child care demand that will result as CalWORKs recipients prepare for and enter the work force. Child care funds are allocated to the counties as a part of the CalWORKs county block grant established pursuant to Chapter 270, Statutes of 1997 (AB 1542).

The May Revision provides for a total of over $1 billion for CalWORKs Stage I, II, and III Child Care programs for 1998-99. Although caseload is declining overall in CalWORKs, additional funding is proposed to account for an increase in the estimated monthly cost of CalWORKs child care and a higher child care utilization rate by recipient families.

Adult Programs

Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program

The May Revision includes $59.8 million General Fund to provide a 2.84 percent cost-of-living adjustment (COLA) for SSI/SSP recipients, based on the latest estimate of the California Necessities Index (CNI), and reflects total expenditures of $2.0 billion General Fund in 1997-98 and $2.1 billion General Fund in 1998-99.

Total program expenditures are below the level reflected in the Governor's Budget by $45.7 million General Fund in the current year and $36.2 million General Fund in the budget year. This reduction reflects recent caseload trends and is due primarily to changes in federal eligibility requirements that restricted benefits for aged non-citizens, persons disabled due to drug and/or alcohol addiction, and disabled children.

The May Revision reflects a projected caseload of 1,015,434 recipients in 1997-98, and 1,026,644 recipients in 1998-99. The 1.1-percent increase in caseload from the current year to the budget year reflects the aging population growth trend; the projected increase in the number of disabled children completing the redetermination process and deemed eligible for benefits; and the continued flow through the naturalization process of aged non-citizen applicants.

In-Home Supportive Services (IHSS) Program

Expenditures for the IHSS program are below the level reflected in the Governor's Budget by $767,000 General Fund in the current year and $6.9 million General Fund in the budget year due to an increase in the number of recipients eligible for federally funded personal care services. Budget year expenditures also reflect an additional $12.8 million in federal Title XX funds, which provides an offset to General Fund costs by the same amount.

The May Revision includes total funding of $1.2 billion ($384.6 million General Fund) for a projected caseload of 204,971 in 1997-98, and $1.4 billion ($478.5 million General Fund) for a projected caseload of 211,910 in 1998-99.

Adult Protective Services (APS) Program

The May Revision includes an additional $10 million General Fund in 1998-99 to expand the APS program, which provides assistance to elderly and dependent adults who are unable to care for themselves. This $10 million augmentation, in conjunction with the $10 million General Fund augmentation in the Governor's Budget, will provide counties with the resources needed to better respond to reports of abuse, provide additional counseling, and arrange for needed medical, social, and legal services. This program expansion will allow counties to provide greater protection to elderly and dependent adults who are in danger of or victims of abuse, neglect, or exploitation.

PUBLIC SAFETY

DEPARTMENT OF CORRECTIONS

INMATE/PAROLEE POPULATION/CASELOAD CHANGES

1997-98 -$13.5 million
1998-99 -$28.1 million

CURRENT YEAR

Based upon the Department of Corrections' (CDC) spring estimates and recent population trends, the May Revision reflects an estimated June 30, 1998 population of 159,370 inmates. This estimate is 2,542 fewer inmates than was projected in the Governor's Budget. This decrease and related program changes result in net savings of approximately $14 million. The revised population estimate represents an increase of 6,864 inmates (4.5 percent) over the June 30, 1997 population level.

The projected fiscal year-end parolee population is 108,297. This is an increase of 1,794 parolees over the Governor's Budget. The revised population estimate and related program changes result in a net increase of approximately $534,000. The revised population estimate represents an increase of 7,469 parolees (7.4 percent) over the June 30, 1997 level.

The net effect of the changes listed above is a General Fund savings of approximately $13.5 million.

BUDGET YEAR

The CDC's spring estimates, combined with recent population trends, reflect a June 30, 1999 population of 168,105 inmates, 3,505 inmates fewer than projected in the Governor's Budget. This decrease and related program changes result in net savings of approximately $27.4 million. The revised inmate population estimate reflects an increase of 8,735 (5.5 percent) over the revised June 30, 1998 population estimate.

The spring population estimate for parolees as of June 30, 1999 is 113,010. This is 1,584 more parolees than anticipated in the Governor's Budget. This increase and related-program changes result in net savings of approximately $724,000. The parolee population level projected for the budget year is an increase of 4,713 (4.4 percent) over the revised population estimate for June 30, 1998.

The net effect of the changes listed above is a General Fund savings of approximately $28.1 million.

LOCAL ASSISTANCE

1997-98 No Change
1998-99 $28.9 million

An increase of $28.9 million is proposed in the budget year to reimburse counties for the costs of detaining parole violators in local jails pending parole revocation hearings. These funds will address projected increased costs for both the current and budget years. A total of $24.9 million is budgeted for outstanding charges and includes: (1) $2.9 million in remaining unpaid claims from various counties from previous fiscal years, (2) $7.3 million in claims from Los Angeles County for medical costs for previous fiscal years and (3) $14.7 million for remaining unpaid county claims for 1997-98. Additionally, a base augmentation of $4 million for 1998-99 is included to address an anticipated increase in the annual level of local reimbursement claims.

ADDITIONAL FUNDING FOR HIV DRUG THERAPIES

1997-98 $6.0 million
1998-99 $4.5 million

The CDC utilizes Medi-Cal standards and recommendations for the care and treatment of its inmate patients. As a result of new drug therapies approved by the Federal Food and Drug Administration, which are utilized in the medical community at large, the department will incur significant costs. To address these costs, an additional $6 million is proposed for 1997-98 and an augmentation of $4.5 million is included for 1998-99.

BOARD OF CORRECTIONS

AUGMENTATION FOR THE CORRECTIONS TRAINING FUND

1997-98 No Change
1998-99 $6.5 million

An increase of $6.5 million is included to augment the level of the Board of Corrections reimbursement of local public safety agencies' costs associated with the training of local corrections personnel. This augmentation recognizes the significant growth in the number of trainees over several years and will provide up to 50 percent of the actual training costs incurred by local public safety agencies.

DEPARTMENT OF THE YOUTH AUTHORITY

POPULATION ADJUSTMENTS

1997-98 -$1.7 million
1998-99 -$5.8 million

For 1997-98, the May Revision estimate for the year-end institutions population is 8,046, a decrease of 354 wards from the projection included in the Governor's Budget. This population decrease results in a savings of $1.6 million. While the parole population estimate has not changed, a shift in the type of caseload supervised will result in a savings of $103,000.

For 1998-99, the year-end institutions population is projected to be 7,910 which is 405 fewer than anticipated in the Governor's Budget and results in a savings of $5.9 million. For parolees, the Youth Authority projects a year-end population of 5,575, or an increase of 110 from the projection included in the Governor's Budget, which results in an additional cost of $86,000.

SLIDING SCALE REIMBURSEMENTS

1997-98 -$4.6 million
1998-99 $1.0 million

The 1997-98 fiscal year is the first full year of implementation of the sliding scale fee, and the Youth Authority estimates reimbursements totaling $26.6 million for the current year and $46.2 million for the budget year. The budget year estimates are higher because more wards will be entering the Youth Authority under the terms of the sliding scale. The current year sliding scale reimbursement estimates are lower than that projected in the fall largely as a result of not billing counties at the sliding scale rate for the time prior to the ward's category assignment by the Youthful Offender Parole Board and while wards are in court or otherwise off institution grounds.

The net effect of the decreased population and decreased reimbursements in the current year is an increase of $3.7 million Non-Proposition 98 General Fund, a decrease of $815,000 Proposition 98 General Fund and a decrease of $4.6 million in reimbursements. For the budget year, the net effect is a decrease of $4.5 million Non-Proposition 98 General Fund, a decrease of $2.3 million Proposition 98 General Fund and an increase of $987,000 in reimbursements.

OFFICE OF CRIMINAL JUSTICE PLANNING

RURAL CRIME PREVENTION

1997-98 No Change
1998-99 $5.0 million

The Governor's Budget includes $641,000 for the Tulare County Rural Crime Prevention Program to fund a demonstration project to assist the County District Attorney in the detection and prevention of agricultural crime. Based on this program, an increase of $5 million is proposed as a set-aside in anticipation of legislation to expand the Rural Crime Prevention Program to other counties throughout the State.

EXPENDITURES

General Government

Office of Emergency Services

Fire Engine Replacement

1997-98 No Change
1998-99 $5.0 million

The State currently provides a fleet of 110 fire engines to assist local governments in their fire and rescue mutual aid efforts. Since many of the engines are beyond their normal estimated useful life, the May Revision includes $5 million in one-time General Fund to accelerate their replacement. At a cost of $200,000 to $250,000 per fire engine, this augmentation will fund the purchase of 20 to 25 fully equipped fire engines. These newer fire engines will enhance the ability of local agencies in responding to disasters and other emergencies.

California Gambling Control Commission

1997-98 No Change
1998-99 $0.6 million

The Governor's Budget included $615,000 from the Gambling Control Fund in anticipation that the California Gambling Control Commission would begin operations on January 1, 1999. An additional $565,000 from the Gambling Control Fund is proposed in the May Revision in order for the Commission to begin operations on July 1, 1998.

Board of Control

Reimbursement for Special Election Costs

1997-98 No Change
1998-99 $0.1 million

Pursuant to Chapter 1102, Statutes of 1996, the State reimburses counties for the cost of special elections called by the Governor to fill a vacancy in an office of the State Legislature or the United States Congress. For 1998-99, the Administration previously proposed $1.89 million to reimburse various counties for special elections conducted in the 1997-98 fiscal year. Since the current rate of reimbursement was developed almost four years ago, it is proposed that the rate be adjusted to provide that non-consolidated elections be reimbursed at a maximum rate of $1.37 per registered voter, and that consolidated elections be reimbursed at a maximum rate of $.66 per registered voter. This proposal results in increased costs of $117,000.

Department of Transportation

Public Transportation Account Loan Repayment

1997-98 No Change
1998-99 $113.0 million

The May Revision reflects the repayment of both the principal and interest on the $91.5 million loan from the Public Transportation Account (formerly the Transportation Planning and Development Account) to the General Fund made in the 1993 Budget Act to partially fund debt service on rail bonds. Including $21.5 million in accumulated interest, this loan repayment will total $113 million.

Additionally, changes will be proposed to use $14.5 million of these funds to offset a reduction to the State Transit Assistance Program which would otherwise occur due to a decline in projected revenues from sales tax on diesel fuel. This would enable the full $100 million proposed in the Governor's Budget to be allocated to regional transportation agencies and transit operators.

Department of Housing & Community Development

School Facilities Fee Reimbursement Pilot Program

1997-98 No Change
1998-99 $160.0 million

The May Revision reflects a General Fund transfer of $160 million to a proposed School Facilities Fee Reimbursement Fund, to mitigate the impact of developer fees for schools on housing construction (particularly in economically distressed areas and for housing available to lower-income individuals). The pilot program must make these funds available for up to four years, commencing January 1, 1999. These funds will become available only upon approval of a school facilities bond measure by the voters.

Trade and Commerce Agency

California Infrastructure & Economic Development Bank

1997-98 No Change
1998-99 $100.0 million

The 1998-99 Governor's Budget included $50 million from the General Fund for initial capitalization of the Infrastructure and Economic Development Bank. The May Revision proposes to increase the Bank's capitalization by providing an additional $100 million in one-time funds from the General Fund. The Bank will enhance economic development through financing of a broad range of public infrastructure projects which support economic expansion in California. By using the funds to guarantee loans or provide other credit enhancements, the Bank is expected to attract and leverage private capital.

Department Of Water Resources (DWR)

Off-Stream Reservoir Storage Facility Investigations North and South of Delta

1997-98 No Change
1998-99 $10.0 million

The Administration's water policy supports an increase in available water supply through the acquisition of off-stream storage facilities. To that end, it is proposed that $10 million be appropriated to DWR to begin the feasibility studies for the development of two off-stream reservoir storage facilities—the Sites Reservoir Project and the Los Banos Grandes Project. This proposal is for the first year of a four-year program that is expected to total $67 million.

Local Flood Control Subventions

1997-98 No Change
1998-99 $172.0 million

Existing law provides for a cost sharing between state and local entities of the nonfederal share of federally authorized local agency flood control projects, which are also state authorized. An augmentation of $172 million in one-time funds is proposed for DWR to pay the State's obligation through the end of 1998-99. Legislation will also be proposed to reform the local flood subventions process, inserting the State at the "front end" of the process before requests are made in Congress for any new flood control projects.

Department Of Water Resources

CALFED

1997-98 No Change
1998-99 $6.0 million

The May Revision includes funding to keep the CALFED process on schedule, with finalization of an agreement targeted for the end of 1998. Funding includes $4.0 million for administrative costs to complete the CALFED agreement and $2.0 million for additional environmental reviews, as necessary, related to the process.

Water Transfers

1997-98 No Change
1998-99 $1.5 million

The May Revision also sets aside $1.5 million for legislation to facilitate water transfers between willing buyers and sellers, and create a water transfer exchange. Included in this funding is $250,000 to study future demand for water transfers and socioeconomic considerations related to water transfer activities.

Vernalis Adaptive Management Plan

1997-98 No Change
1998-99 $1.0 million

An additional $1.0 million is set aside for legislation to fund the first year of a 12-year period to purchase water rights on the San Joaquin River pursuant to the Vernalis Adaptive Management Plan. The plan is being implemented to protect fall-run Chinook salmon and gather scientific information on the effects of various water flows in the lower San Joaquin River, the Central Valley Project, and the State Water Project.

Flood Control Repairs

The May Revision proposes $7.3 million for the State's share of flood control repairs on the Sacramento and San Joaquin River flood control systems. These repairs are needed because of damage to the system caused by the 1997 floods and will be cost-shared with the Army Corps of Engineers and local agencies.

Pending Settlements

There is sufficient funding in the reserve to handle pending settlements of existing litigation in the Resources Agency.

Department Of Parks And Recreation

Deferred Maintenance

1997-98 No Change
1998-99 $25.0 million

Maintaining a healthy state park system infrastructure is key to the protection of California's natural, historic, and cultural resources and central to the delivery of recreational services to Californians. A one-time augmentation of $25 million is proposed for deferred maintaince.

RESOURCES AGENCY/WILDLIFE CONSERVATION BOARD (WCB)

HEADWATERS AGREEMENT

1997-98 No Change
1998-99 $130.0 million

In September 1996, the federal government, the State, and the Pacific Lumber Company forged an agreement in principle to acquire and protect 7,500 acres of old-growth redwood. Included in this agreement are 3,200 acres of the Headwaters Forest, the largest privately owned stand of old-growth redwoods. A one-time augmentation of $130 million is proposed for the WCB to pay the State's contribution toward the total $380 million acquisition costs. The remaining $250 million will be funded by the federal government.

FUND SHIFT FROM THE NATURAL RESOURCES INFRASTRUCTURE FUND (NRIF) TO THE GENERAL FUND

1997-98 No Change
1998-99 $36.1 million

Existing statute identifies revenues from oil royalties to be used for certain natural resources programs. Because crude oil prices have been down, oil royalty revenues have also been reduced. Consequently, several high-priority programs dependent on this fund source will be adversely affected unless another fund source is used to support them. It is proposed, therefore, that $36.1 million of proposed expenditures be shifted from the NRIF to the General Fund on a one-time basis. This will continue critical funding for high-priority programs, including:

Environmental Review (Department of Fish and Game)	$10.5 million
Habitat Conservation Fund and similar programs	8.9 million
Lake Tahoe Initiative	5.6 million
State Parks Deferred Maintenance	5.0 million
Ocean and Coastal Initiative	4.5 million
Natural Community Conservation Planning	1.6 million

AIR RESOURCES BOARD

SHIFT STATIONARY SOURCE/SUBVENTION FUNDING FROM MOTOR VEHICLE ACCOUNT TO GENERAL FUND

1997-98 No Change
1998-99 $27.4 million

As part of efforts to ensure the long-term solvency of the Motor Vehicle Account, the May Revision proposes to shift $27.4 million for the control of air pollution from stationary (nonvehicular) sources from the MVA to the General Fund.

California Air Quality Standards Attainment Program

1997-98 No Change
1998-99 $50.0 million

The May Revision proposes to establish a new grant program to cover the incremental costs of replacing large diesel engines that emit high levels of nitrogen oxide with new low-emission technology in order to help achieve the State Implementation Plan standards. The program includes $48 million for one-time grants and $2 million for administration and evaluation contracts.

Petroleum Violation Escrow Account (PVEA)

Repayment of PVEA

1997-98 No Change
1998-99 $26.0 million

Federal policy requires that interest earned on PVEA moneys be made available to the PVEA fund. A Department of Finance audit concluded that $26 million in interest earnings, as of June 1996, had inappropriately accrued to the General Fund. It is proposed that a $26 million repayment be made from the General Fund to PVEA.

Capital Outlay

1997-98 No Change
1998-99 $174.5 million

The Governor's Budget proposed funding three capital outlay projects from lease-revenue bonds. The May Revision reflects shifting the funding source from lease-revenue bonds to General Fund for the Office of Emergency Services Headquarters project ($25.8 million), the Department of Health Services Richmond Laboratory Phase 2 project ($115.7 million) and the Department of Mental Health Atascadero Hospital 250 Bed Addition ($33.0 million). This proposal will result in estimated future debt service savings of $136.1 million.

Local Government

Trial Courts

Counties' Maintenance of Effort (MOE) Adjustments

1997-98 No Change
1998-99 $15.3 million

Chapter 850, Statutes of 1997, requires counties to remit to the Trial Court Trust Fund, beginning in 1997-98, an amount equal to the counties' 1994-95 contributions to the local trial courts. Chapter 850 also authorizes counties and courts to submit appeals for permanent adjustments to that MOE. Those appeals include requests to adjust for specific trial court costs not reported in 1994-95; specific costs incorrectly included as court costs in 1994-95; trial court costs that were supported through various grants and subventions; and/or extraordinary one-time expenditures included in the 1994-95 amounts. Based on the Department of Finance review of the appeals submitted by counties and courts, and pursuant to the procedures specified in Chapter 850, the Department of Finance proposes that the counties' required contributions be reduced by a net total of $15.3 million in 1998-99.

The May Revision reflects a General Fund backfill of the $15.3 million to help maintain the current level of operations in the trial courts. In addition, legislation will be proposed to make the MOE adjustment effective in 1998-99, rather than 1997-98.

Judgeships

1997-98 -$0.4 million
1998-99 -$3.3 million

Pursuant to Chapter 858, Statutes of 1997, the Governor's Budget proposed $381,000 in 1997-98 and $13.2 million in 1998-99 to fund 40 judgeships. Instead, legislation will be proposed to authorize the establishment of the 40 judges as of January 1, 1999.

Funding for these positions is proposed in the Budget Bill. However, the Budget Bill must be reduced by $3.3 million to reflect the revised level of funding required.

Statewide Issues

Mandate Appropriations

1997-98 No Change
1998-99 $67.8 million

The State Controller's Office has reported that the claims they received from local governments (cities, counties, special districts) for reimbursement of state-mandated local costs, which are payable from the last three Budget Acts and three recent claims bills, including accrued interest through January 31, 1998, exceeded the appropriations by $61.3 million. The Governor's Budget included a set-aside of $17.3 million for these potential deficiencies. An additional $44 million, therefore, is needed for the difference between these amounts plus $1.5 million for interest accruing from February 1, 1998 through June 30, 1998. All of these amounts will be proposed in the Commission on State Mandates' 1998 claims bill. A one-time "catch-up" adjustment of $22.3 million is also necessary to minimize future deficiencies.

Employee Compensation

1997-98 No change
1998-99 $59.8 million

Salary Increase—The May Revision includes an additional $51.1 million to enhance the 3 percent state employee salary increase amount included in the January Budget.

Health Benefits for Active Employees—Augmentation of $8.7 million General Fund ($17.5 million all funds) for employer contributions for active state employee health care. The Public Employees' Retirement System recently negotiated new health premium rates at an average increase of 7.8 percent over existing rates. Consequently, employer costs will increase for health plans which currently cost less than the maximum State contribution rates.

State Retirement Contributions

1997-98 No change
1998-99 -$192.8 million

State Teachers Retirement System (STRS)—General Fund contributions to STRS for Elder Full Funding will decrease by $4.2 million in 1998-99 (from $646.7 to $642.5 million). This is due to a lower-than-predicted increase in actual teacher payroll which is the basis for the statutory formula.

Public Employees' Retirement System (PERS)—Due to unusually favorable economic factors and changes in the actuarial assumptions used by PERS in their June 30, 1997, actuarial evaluation of the retirement system, the State's 1998-99 obligation to PERS is estimated to decrease by $251.5 million General Fund ($457.3 million all funds) from the Governor's Budget. As the General Fund payment to PERS is made on a quarterly basis, one quarter in arrears, only three quarters or $188.6 million of the full year General Fund savings will be realized in 1998-99.

Health and Dental Benefits for Annuitants

1997-98 -$0.3 million
1998-99 $15.4 million

The May Revision includes an increase of $15.4 million General Fund (from $302.3 to $317.7 million) for annuitant health and dental benefits in 1998-99 due primarily to an average health premium rate increase of 7.8 percent over existing rates and a corresponding increase in employer contribution rates. In addition, a decrease of approximately $0.3 million General Fund in the current year is reflected.

Malibu/Abramovitz Lawsuit Judgment

1997-98 No Change
1998-99 $46.9 million

This judgment provides for the payment of $119 million from the General Fund to various special funds to return certain transfers that were made per the Budget Acts of 1991, 1992, 1993, and 1994. The judgment requires an initial payment in 1996-97 and a final payment by 2000-01. The judgment also provides for a 7-percent interest payment.

An initial payment of $26.6 million was made in 1996-97. The 1997-98 proposed payment was deleted as a result of the one-time PERS lawsuit payment. The 1998-99 Governor's Budget proposes a $60 million payment that combines the second and third payments.

Given the additional increase in General Fund revenues, the May Revision proposes an additional $46.9 million increase to completely satisfy the state's obligation pursuant to the judgment.

General Obligation Bonds & Commercial Paper Debt Service

1997-98 -$16.5 million
1998-99 -$68.9 million

The Governor's Budget anticipated current year General Obligation (G.O.) bond debt service expenditures of approximately $1.888 billion, and budget year expenditures of approximately $2.011 billion.

Due to revisions in the State Treasurer's Sales Plan, a lower-than-estimated G.O. bond sale in the Spring of 1998, a lower interest rate for this sale, and an unanticipated refunding sale in February 1998, debt service expenditures are estimated to decrease by $16.5 million in the current year, and by $68.9 million in the budget year.

Payment of Interest on General Fund Loans

1997-98 -$24.8 million
1998-99 -$25.0 million

For 1997-98, the Governor's Budget anticipated the cost of interest on General Fund loans for internal borrowing to be $25.0 million. These interest costs are now estimated to be approximately $15.0 million, or a savings of $10.0 million. This is based on actual disbursements of approximately $13.0 million through April 30th and anticipated costs through the end of the fiscal year. Given the higher revenue flow, as well as the historical trend from the last two years, it is not anticipated that the State will incur any significant additional interest cost for the balance of the current year. The interest cost for external borrowing was anticipated at $108.7 million. Given that the Revenue Anticipation Notes (RANs) were sold at a premium, the net cost of external borrowing was reduced by $14.7 million to $94.0 million. The total 1997-98 savings is $24.8 million.

For 1998-99, interest costs on internal borrowing was anticipated to be $45.0 million. These costs are now estimated to be approximately $20.0 million, or a savings of $25.0 million. These savings are based on revised anticipated revenues and expenditures for 1998-99. The Governor's Budget also estimated the sale of RANs in the amount of $3.0 billion in July 1998, with an interest rate of 5.0 percent. This equates to an interest cost of $150.0 million. Based on current market conditions, this estimate remains unchanged.

1998-99 STATE APPROPRIATIONS LIMIT CALCULATION

Pursuant to Article XIIIB of the California Constitution, the 1998-99 State Appropriations Limit (SAL) is estimated to be at $47.564 million. The revised limit is the result of applying a growth factor of 6.11 percent. The revised 1998-99 limit is $542 million below the $48.106 billion estimated for 1998-99 in January. This decrease is due to changes in the following factors:

	January Percentage	May Revision Percentage
Per Capita Personal Income	5.39	4.15
State Civilian Population	1.77	1.81
K-14 Average Daily Attendance	1.92	1.97

The SAL for 1997-98 does not change since it was statutorily determined by Section 12.00 of the 1997 Budget Act.

EXPENDITURES

General Fund
Revenues and Expenditures
(Dollars in Billions)

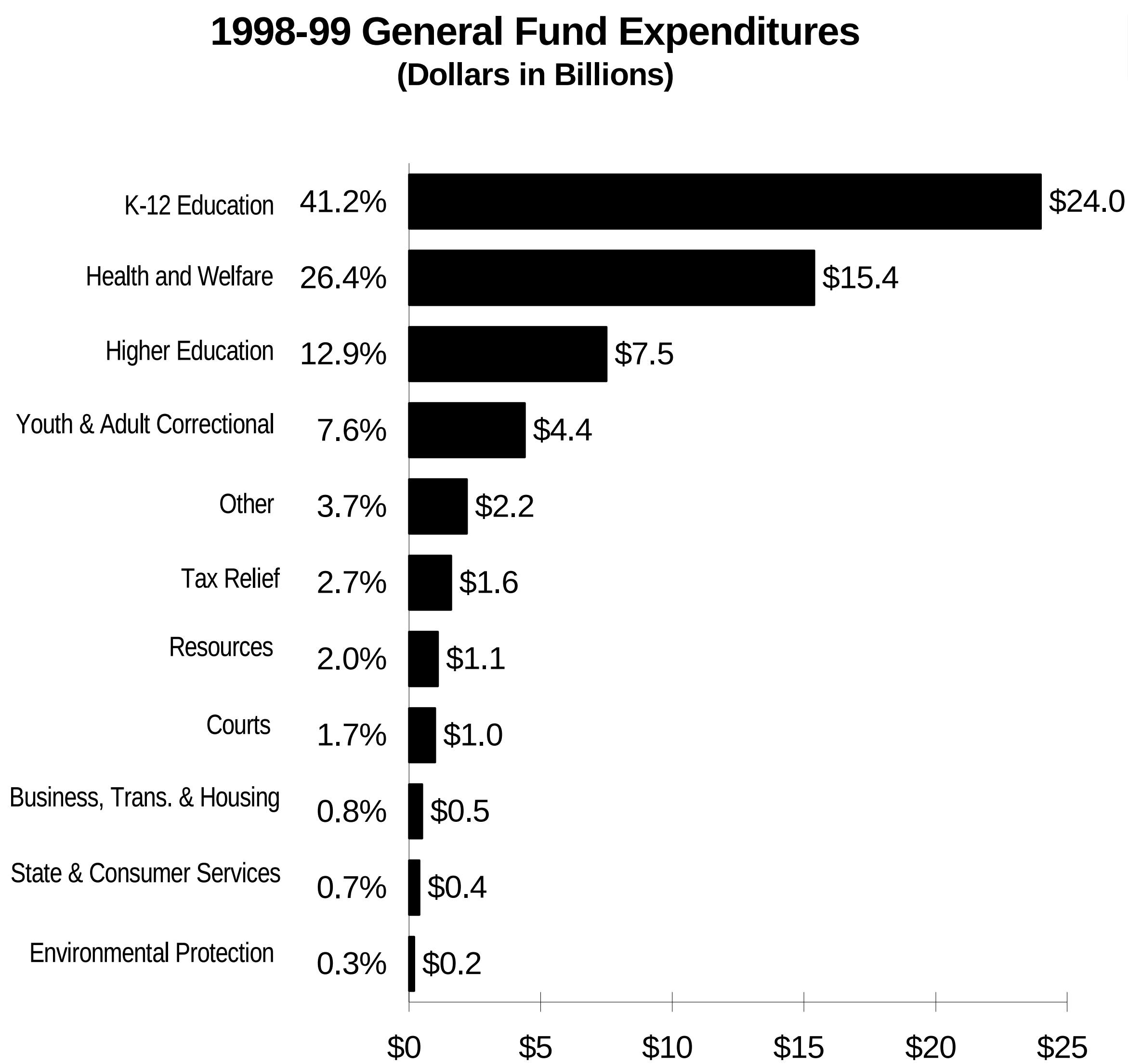
	Revenues	Expenditures
1991-92	$42.0	$43.3
1992-93	$40.9	$40.9
1993-94	$40.0	$39.0
1994-95	$42.7	$42.0
1995-96	$46.3	$45.4
1996-97	$49.2	$49.2
1997-98	$54.6	$53.0
1998-99	$57.8	$58.3

General Fund
Budget Summary
(Dollars in Millions)

	1997-98	1998-99
Prior Year Balance	$907	$2,520
Revenues and Transfers	$54,645	$57,847
Total Resources Available	**$55,552**	**$60,367**
Expenditures	$53,032	$58,274
Fund Balance	**$2,520**	**$2,093**
Budget Reserves:		
Special Fund for Economic Uncertainties	$2,075	$1,648
Reserve for Liquidation of Encumbrances	$445	$445

General Fund Expenditures by Agency
(Dollars in Millions)

	1997-98	1998-99
Legislative, Judicial, Executive	$1,592	$1,889
State and Consumer Services	396	425
Business, Transportation & Housing	280	472
Trade and Commerce	54	203
Resources	749	1,148
Environmental Protection	107	202
Health and Welfare	14,664	15,362
Youth and Adult Correctional	4,071	4,402
K-12 Education	22,437	24,041
Higher Education	6,637	7,528
General Government	2,045	2,602
Total	**$53,032**	**$58,274**
January Totals	$53,022	$55,416
Change from January	$10	$2,858
Percent Change from January	.02%	5.2%


1998-99 General Fund Expenditures
(Dollars in Billions)
K-12 Education
41.2%
$24.0
Health and Welfare
26.4%
$15.4
Higher Education
12.9%
$7.5
Youth & Adult Correctional
7.6%
$4.4
Other
3.7%
$2.2
Tax Relief
2.7%
$1.6
Resources
2.0%
$1.1
Courts
1.7%
$1.0
Business, Trans. & Housing
0.8%
$0.5
State & Consumer Services
0.7%
$0.4
Environmental Protection
0.3%
$0.2
$0
$5
$10
$15
$20
$25

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Budget Program Areas

Revenue Forecasting; Economic Projections; Demographic Research; Business, Transportation and Housing; Trade and Commerce	Shelley Mateo	322-2263
Education	Kathryn Gaither	445-0328
Health and Welfare; Local Government	Stan Cubanski	445-6423
Youth and Adult Correctional; Justice; General Government; State and Consumer Services	Calvin Smith	445-8913
Resources, Environment, Energy; Capital Outlay; Legislation	Fred Klass	324-0043
Employee Relations; Retirement Systems	Robert Straight	327-0201
Budget Planning and Preparation; Cash Management; Statewide Issues	Carl Rogers	445-5332

California's Budget on the Internet

This document is also available on the Internet at the California Department of Finance website:
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DEPARTMENT OF FINANCE CALIFORNIA